

Registered Number 48340

**Legal & General Reinsurance Company Limited
Report and Accounts 2021**

Registered Number 48340

Legal & General Reinsurance Company Limited
Report and Accounts 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Legal & General Reinsurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Legal & General Reinsurance Company Limited (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and total comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
29 April 2022

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Legal & General Reinsurance Company Limited
Report and Accounts 2021**Statement of Profit or Loss and Total Comprehensive Income**

For the year ended 31 December

	Notes	2021 £m	2020 £m
Revenue			
Gross written premiums	1E	1,046	1,586
Outward reinsurance premiums	1P	(1)	(1)
<hr/>			
Net premium earned		1,045	1,585
Investment return	1L/1M/3	204	1,760
Other income	1O	18	16
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Total revenue		1,267	3,361
Expenses			
Claims and change in non-participating insurance contract liabilities	1E/4	692	2,780
Claims and change in non-participating investment contract liabilities	1F/4	4	7
Acquisition costs	1E/4	5	7
Other expenses	1N	13	15
<hr/>			
Total expenses		714	2,809
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Profit for the year attributable to equity holder of the Company before tax		553	552
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Income tax expense attributable to equity holder	1D	(2)	(2)
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Profit and total comprehensive income for the year attributable to equity holder of the Company		551	550
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Legal & General Reinsurance Company Limited
Report and Accounts 2021**Statement of Financial Position**

As at 31 December

	Notes	2021 £m	2020 £m
Assets			
Investment in subsidiary	17/18	1	1
Funds withheld	1G/7	20,723	20,271
Financial investments	1H/8/9	1,388	1,369
Derivative assets	1J/8/9/10	58	78
Other assets		9	27
Cash and cash equivalents	1I	28	36
Total assets		22,207	21,782
Equity			
Share capital	11	300	300
Contributed surplus		220	220
Retained earnings		1,735	1,303
Total shareholder's equity		2,255	1,823
Liabilities			
Non-participating insurance contract liabilities	1E/12/14	19,514	19,689
Non-participating investment contract liabilities	1F/4/13	353	155
Derivative liabilities	1J/10/15	54	68
Payables and other financial liabilities	1K/15	31	47
Total liabilities		19,952	19,959
Total equity and liabilities		22,207	21,782

The Notes on pages 9 to 38 are an integral part of these financial statements.

The financial statements on pages 5 to 8 were approved by the Board of Directors on 28 April 2022 and were signed on their behalf by:

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 BE9AB8CA1DCC401...
 Tim Stedman
 Chairperson

DocuSigned by:

 DF35383126D64E5...
 Carl Moxley
 Director

DocuSigned by:

 9DC16EB325D4406...
 Amy Ellison
 Director

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Legal & General Reinsurance Company Limited
Report and Accounts 2021**Statement of Changes in Equity**

For the year ended 31 December

For the year ended 31 December 2021	Notes	Share capital £m	Contributed Surplus £m	Retained earnings £m	Total equity £m
As at 1 January		300	220	1,303	1,823
Profit and total comprehensive income for the year		-	-	551	551
Dividend	6	-	-	(119)	(119)
As at 31 December 2021		300	220	1,735	2,255
For the year ended 31 December 2020					
As at 1 January		300	220	851	1,371
Profit and total comprehensive income for the year		-	-	550	550
Dividend	6	-	-	(98)	(98)
As at 31 December 2020		300	220	1,303	1,823

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Legal & General Reinsurance Company Limited
Report and Accounts 2021**Statement of Cash Flows**

For the year ended 31 December

Notes	2021 £m	2020 £m
Cash flows from operating activities		
Profit for the year	551	550
Adjustments for non-cash movements in profit for the year		
Realised and unrealised gains on financial investments	6	(71)
Accrued dividends and income	1	1
Foreign exchange (gains) / losses	(2)	5
Income tax expense	2	2
Net increase in operating assets		
Funds withheld	(452)	(2,449)
Non profit non-unit linked investments	153	(28)
Other assets	19	-
Net increase in operating liabilities		
Non-participating Insurance contract liabilities	(175)	2,151
Non-participating Investment contract liabilities	198	103
Payables and other financial liabilities	(31)	52
Interest received	3	5
Dividends received	8	9
Net cash flows from operating activities	281	330
Cash flows from investing activities		
Purchases of financial investments	(655)	(704)
Proceeds from sales and maturities of financial investments	476	438
Income tax paid	(2)	-
Interest received	1	1
Dividends received	10	10
Net cash flows used in investing activities	(170)	(255)
Cash flows from financing activities		
Dividend distributions to ordinary equity holder of the Company	(119)	(98)
Net cash flows used in financing activities	(119)	(98)
Net increase / decrease in cash and cash equivalents	(8)	(23)
Cash and cash equivalents at the beginning of the year	36	59
Cash and cash equivalents at 31 December	28	36

The Company's statement of cash flows includes all cash and cash equivalent flows.

1. Accounting policies

A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'). The Company's financial statements also comply with International Financial Reporting Interpretations Committee ('IFRIC') interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets (including funds withheld, financial investments and derivative assets) and financial liabilities (including derivatives liabilities), which are reported at fair value through profit or loss ('FVTPL').

These financial statements contain information about Legal & General Reinsurance Company Limited as an individual company and do not contain consolidated financial information. The Company is included in the consolidated Group accounts of Legal & General Group Plc ('Group'), a United Kingdom ('UK') domiciled publicly traded company.

The Company presents its Statement of Financial Position in order of increasing liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Company's core business. However, for each significant asset and liability line item, which combines amounts expected to be recovered or settled before and after 12 months from the Statement of Financial Position date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Profit or Loss and Total Comprehensive Income unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Company.

(i) Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Company's financial statements. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Company's results. Principal risks and uncertainties are detailed in Note 20.

The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and the Company's outlook for a period of at least, but not limited to, 12 months from the date of approval of these financial statements, which takes account of the current and future impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

The Company manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. The key sensitivities and the impacts on the Company's capital position from a range of stresses are disclosed in Note 20. These stresses, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the Directors consider that the Company has the plans and resources to manage its business risks successfully. Despite the current increased level of uncertainty from COVID-19, the Company remains financially strong. To protect its mortality business with its affiliate, First British Bermuda Reinsurance Company III Ltd. ('FBBRC III'), the Company entered into a new 24-month Adverse Mortality Aggregate Excess of Loss (or Adverse Mortality Stop Loss) reinsurance agreement in December 2020. This Adverse Mortality Stop Loss was extended by an additional 12 months in December 2021, such that the termination date is now December 2023 (2020: December 2022). The total protection amount remains unchanged at \$135m and the reinsurance panel is made up of PartnerRe Life Reinsurance Company of America ('PartnerRe') 74.07% and Axis Re SE ('Axis Re') 25.93% (unchanged from 2020).

Having reassessed the principal risks and uncertainties (both financial and operational) in light of the current economic environment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

(ii) New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2

These amendments, issued in August 2020, address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. In particular, they offer practical expedients, under certain conditions, when a financial contract is modified due to a change resulting directly from Interbank Offered Rate ('IBOR') reform. They also allow a series of exemptions from the current rules around hedge accounting. The amendments will be considered as new interest rate benchmarks are introduced.

New disclosure requirements have also been introduced as part of Phase 2, and in line with these the Company has provided the below details around the nature and extent of risks to which it is exposed arising from financial instruments subject to IBOR reform, how such risks are managed and the Company's progress in completing its transition to alternative benchmark rates.

Notes to the Financial Statements
For the year ended 31 December 2021

Legal & General Reinsurance Company Limited
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1. Accounting policies (Continued)

(ii) New standards, interpretations and amendments to published standards that have been adopted by the Company (Continued)

In the UK, GBP London Interbank Offered Rate ('LIBOR') has been replaced by SONIA from the end of 2021. Furthermore, USD LIBOR is expected to be replaced by mid-2023. Euribor will remain but will be administered by EMMI ('Euro Money Markets Institute').

The key challenges for the Company arose in the following areas:

- All financial contracts that reference LIBOR needed to be amended;
- Derivatives and assets on balance sheet that were exposed to changes in market value when the reference rate changes needed to be considered;
- Customers needed to understand the implications for the products and agree the necessary changes.

To deal with these risks and to manage the Group-wide conversion, the Company initiated a project in 2019 to transition away from LIBOR. Business as usual processes were enhanced to include increased market surveillance on LIBOR trading, added record-keeping specific to LIBOR trades, increased client communications and additional complaints monitoring processes.

The largest shareholder exposures are related to LIBOR-linked derivatives that are used for hedging the annuity business. In 2021, the Company stopped trading assets referenced to LIBOR (except in some very limited circumstances) and initiated a programme of replacing legacy assets denominated in LIBOR with new Sterling Overnight Index Average ('SONIA') based positions.

The Company does not hold any GBP LIBOR exposure.

Trading out of USD LIBOR has been more gradual as a result of the transition date moving to 23 June 2023, however this has now accelerated following Group's guidance that no new USD LIBOR investments should be made from 1 January 2023.

The following table contains details of all of the financial instruments currently subject to the IBOR reform that the Company holds on its balance sheet at 31 December 2021, which have not yet transitioned to SONIA or an alternative interest rate benchmark. The amounts of non-derivative financial assets are shown at their carrying amounts and derivatives are shown at their notional amounts.

	GBP LIBOR	USD LIBOR	Total
	2021	2021	2021
	£m	£m	£m
Derivatives	-	731	731

(iii) Standards, amendments and interpretations to published standards which are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2022 or later periods but which the Company has not adopted early, as disclosed below.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts', was originally issued in May 2017 and subsequent amendments were issued in June 2020. The standard is expected to be effective for annual periods beginning on or after 1 January 2023. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for reinsurance contracts including their measurement, income statement presentation and disclosure.

IFRS 17 is an accounting change and therefore while it will have an impact on the timing and profile of profit recognition, we expect the underlying economics and cash generation of the Company's businesses will remain the same. While the Company is still refining its methodology and completing the development of models and operational capabilities, it is not possible to provide a reliable estimate of the impact on adopting IFRS 17, nor of the ongoing impact on the Company's financial results.

In terms of key accounting policies and approaches, the Company is able to set out the following at this time:

- The Company will be applying the General Measurement Model to all business measured under IFRS 17.
- On transition to IFRS 17, the Company will apply the fully retrospective approach unless impracticable. In some instances, this will lead to the modified retrospective and fair value approaches being used for specific groups of reinsurance contracts.

1. Accounting policies (Continued)

(iii) Standards, amendments and interpretations to published standards which are not yet effective (Continued)

- The selection of a rate at which to discount future cashflows for groups of reinsurance contracts is a key determinant in the valuation of the reinsurance liability. We intend to apply a top down discount rate to such groups, starting from an appropriate asset portfolio with economic deductions.
- IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in the profit and loss or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. All finance income and expense will be included in profit or loss except for protection business where we intend to disaggregate such changes.

The Company participates in a Group programme to implement the standard. Work will continue throughout 2022 to ensure technical compliance as well as to test and embed the required systems and operational capability. Communication and training plans are in place for impacted employees, and the impact on resources across the Finance function is being assessed to ensure the business is ready to implement the new standard.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments', which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020 the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023. The Company qualifies for, and is making use of, this deferral option.

In December 2021, in order to alleviate operational complexities and potential one-off accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17, the IASB issued an amendment to IFRS 17 titled 'Initial Application of IFRS 9 and IFRS 17 - Comparative Information'. If an entity applies IFRS 17 and IFRS 9 at the same time, this amendment permits it to present comparative information about financial assets derecognised in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to them. The Company has chosen to restate comparative information and to apply this classification overlay to all financial assets in scope. While the Company is still refining its methodology and completing the development of models and operational capabilities, it is not possible to provide a reliable estimate of the impact on adopting IFRS 9, nor of the ongoing impact on the Company's financial results.

IFRS 9 classifies financial assets into the following three categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets is based on the entity's business model for managing them, as well as their contractual cash flow characteristics. The Company expects to reclassify a certain amount of financial assets as a result of these assessments, in order to better align the accounting treatment of assets that are backing insurance contract liabilities under IFRS 17.

With the exception of financial assets measured under FVTPL, the Company will apply an expected credit loss impairment model to all financial assets in scope (including lease receivables and contract assets). The new impairment model requires utilising not only past events and current conditions but also reasonable and supportable forward-looking information, in order to assess the credit risk profiles of those financial assets in scope. The Company will recognise either twelve months' or lifetime expected credit losses in the consolidated income statement at each reporting period. The Company intends to use the practical expedient for financial assets with low credit risk at the reporting date, which allows recognising twelve months' expected credit losses. Additionally, for trade receivables, contract assets and lease receivables, the Group plans to use a provision matrix method to calculate and recognise lifetime expected credit losses.

Financial liabilities are expected to be classified and measured under their current categories (FVTPL or amortised cost) under IFRS 9.

The Company participates in Group's programme to implement the standard. Work will continue throughout 2022 to ensure technical compliance as well as to test and embed the required systems and operational capability. Communication and training plans are in place for impacted employees, and the impact on resources across the Finance function is being assessed to ensure the business is ready to implement the new standard.

Annual Improvements to IFRS Standards 2018-2020

These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments'. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company does not expect the impact to be significant.

Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets

These amendments, issued in May 2020, specify which costs a Company includes when assessing whether a contract will be loss-making. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company does not expect the impact to be significant.

Amendments to IAS 1 – Presentation of Financial Statements

These amendments, issued in February 2021, intend to help preparers in deciding which accounting policies to disclose in their financial statements on or after 1 January 2023, subject to UK endorsement. The Company does not expect the impact to be significant.

1. Accounting policies (Continued)

(iii) Standards, amendments and interpretations to published standards which are not yet effective (Continued)

Amendments to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors

These amendments, issued in February 2021, aim to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company does not expect the impact to be significant.

Amendments to IAS 12 – Income Tax

These amendments, issued in May 2021, clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company does not expect the impact to be significant.

B Critical accounting policies and use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Financial Position and the Statement of Profit or Loss and Total Comprehensive Income at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly.

The preparation of the financial statements has also considered the impact of climate change and, as at 31 December 2021, management does not consider this to be a significant area of accounting judgement or source of estimation uncertainty. Specific considerations around climate change have been presented in this Annual Report and Accounts in the following sections:

- Financial investments (Note 8)
- IFRS sensitivity analysis (Note 20)

The major areas of judgement on policy application are considered below:

The determination of fair values of unquoted and illiquid financial investments (Notes 1G, 1H, 7, 8)

Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Non-participating insurance and investment contract liabilities (Notes 1E, 1F, 12, 13) and associated balances

This relates to the assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance or investment contract. Contracts which transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the Company but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the Company to make significant additional payments, i.e. does the occurrence of the event cause significantly higher cash outflow for the Company than its non-occurrence.

The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity and mortality are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities that represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs. The main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 14.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data. The valuation interest rate is also sensitive to the selection of assets chosen to back the liabilities.

1. Accounting policies (Continued)

C Summary of significant accounting policies

The Company has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting year. The accounting policies have been consistently applied to all years presented unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard, as detailed in the applicable accounting policies of the Company.

The principal accounting policies adopted in preparing these financial statements are set out below.

D Tax balances

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

The Company is subject to tax in the UK on the profits that arise by reference to central management and control being undertaken by the Board of Directors in the UK. The Company is also subject to tax on the income it receives from its investments in UK property funds.

In 2021 the Organisation for Economic Co-operation and Development ('OECD') agreed a landmark deal to implement a global minimum tax rate, alongside a tax on digital services based on the end user location. Model rules for the global minimum tax rate were published in December, with the intention that these should be effective from 2023. This is an ambitious target for introducing a new global tax regime, and significant effort is required for multi-national groups to achieve compliance with the new rules.

E Non-participating insurance contract liabilities

Non-participating insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using the requirements under former UK Generally Accepted Accounting Principles ('GAAP'), as permitted by IFRS 4, 'Insurance contracts'.

The liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits.

Gross written premiums represent the total premiums written by the Company before deductions for reinsurance. Premiums are recognised as revenue when due for payment. Claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement. Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. These costs are charged to the Statement of Profit or Loss and Total Comprehensive Income when incurred.

F Non-participating investment contract liabilities

Non-participating investment contract liabilities are measured at fair value. Fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk.

Premiums received relating to investment contracts are not recognised as income, but are included in the Statement of Financial Position under non-participating investment contract liabilities. Claims are not included in the Statement of Profit or Loss and Total Comprehensive Income but are deducted from non-participating investment contract liabilities. The movement in non-participating investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the Statement of Financial Position and the investment return credited to policyholders.

G Funds withheld

Funds withheld include assets contractually withheld by ceding companies in accordance with each respective reinsurance agreement. The value of the assets withheld and interest income are recorded in accordance with each specific treaty terms.

The funds withheld back the Company's non-participating policyholder liabilities and on initial recognition are designated at FVTPL. The funds withheld are measured at a value equal to the fair value of the underlying assets held by the withholding companies, with fair value gains and losses reflected in the Statement of Profit or Loss and Total Comprehensive Income. The funds withheld are measured on the basis of current information relating to the assets withheld and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit or Loss and Total Comprehensive Income.

H Financial investments

The Company classifies its financial investments on initial recognition as held for trading ('HFT'), designated at FVTPL or receivables. Initial recognition of financial investments is on the trade date. The Company's policy is to measure financial investments at FVTPL. All derivatives are classified as HFT.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Statement of Profit or Loss and Total Comprehensive Income. Transaction costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2021

Legal & General Reinsurance Company Limited
Report and Accounts 2021**1. Accounting policies (Continued)**

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Company's Investment Committee and the Company's investment strategy. Assets designated as FVTPL include debt securities and equity. Assets backing non-participating policyholder liabilities are designated as FVTPL. The Company's non-participating insurance contract liabilities investments are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit or Loss and Total Comprehensive Income.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Française des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

I Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less from the date of acquisition.

J Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses a variety of exchange traded and over-the-counter derivative financial instruments, including, futures, options, forward currency contracts and swaps, such as interest rate swaps and cross currency basis swaps measured at fair value to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the Statement of Profit or Loss and Total Comprehensive Income.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

K Payables and other financial liabilities

Payables and other financial liabilities comprise collateral received from banks and other liabilities.

Other financial liabilities balances, including broker, management fees and other payables, are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

L Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the Company's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the Company's foreign operations are translated into sterling, the Company's presentation currency, at the closing rate at the date of the Statement of Financial Position. The income and expenses for each Statement of Profit or Loss and Total Comprehensive Income line are translated at average and spot exchange rates.

Foreign exchange gains and losses are recognised in the Statement of Profit or Loss and Total Comprehensive Income.

M Investment return

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL, and realised gains and losses from all financial assets and liabilities.

Investment income includes dividends and interest. Dividends are accrued on an ex-dividend basis. Interest is included on an accruals basis. Interest income for financial assets which is not classified as FVTPL is recognised using the effective interest method. Investment income is presented net of investment management fees.

N Other expenses

Other expenses comprise administrative expenses, management fees, corporate expenses and other charges. Other costs are accounted for as they arise. The Company does not have direct employees since they are employed by Legal & General Resources Bermuda Limited ('LGRB').

O Other income

Other income includes experience refund and is recognised on an accruals basis and accounted for in the period as it arises.

P Outward reinsurance

Outward reinsurance premiums are accounted for as paid in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

2. Company information

The Company is a long-term Class E reinsurer under Bermuda's Insurance Act of 1978. The principal activity of the Company is the provision of life reinsurance solutions globally, focussing initially on pensions risk transfer ('PRT') in selected international markets.

The Company has long-term PRT business in the UK (for an affiliated company) and in Ireland and the Netherlands. During 2021 the Canadian PRT business was transferred to Legal & General Reinsurance Company No.2 Limited ('L&G Re No. 2'). Refer to Note 7 for details of the transaction.

The Company provides protection reinsurance to affiliates in the United States of America ('US').

The Company was capitalised in 2014 with £220m. Legal & General Re Holdings Limited ('Re Holdings') is the direct parent and Legal & General Group Plc is the ultimate parent. In 2019, the Company issued an additional £300m of share capital.

The Company is incorporated and domiciled in Bermuda and its registered office and principal place of business is 19 Par-la-Ville Road, Hamilton HM 11 Bermuda.

The Company has appointed KPMG Audit Limited as independent auditors.

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3. Investment return

Total investment return for the year was:

	2021 £m	2020 £m
Gross gain (including interest and dividend income) on the funds withheld (See Note 7).	236	1,730
Net gain on financial investments designated as FVTPL	11	71
Net (loss) / gain on derivative contracts	(6)	7
Net gain / (loss) from foreign exchange revaluation	6	(10)
Investment management expenses	(43)	(38)
Total investment profit	204	1,760

4. Claims and change in non-participating liabilities

From non-participating insurance contract continuing operations	2021 £m	2020 £m
Claims paid	845	651
Change in non-participating insurance contract liabilities	(153)	2,129
Total claims and change in non-participating insurance contract liabilities	692	2,780
From non-participating investment contract continuing operations	2021 £m	2020 £m
Premiums received	(219)	(96)
Claims paid	24	-
Commissions paid	1	-
Change in non-participating investment contract liabilities	198	103
Total claims and change in non-participating investment contract liabilities	4	7

5. Foreign exchange and exchange rates

Investment return for the year includes a foreign exchange gain of £6m (2020: £10m loss) arising on conversion of foreign currency monetary assets and liabilities to functional currency. This includes gains arising from foreign currency financial investments amounting to £2m (2020: £5m loss).

Principal rates of exchange used for translation are:

	2021 Average	2021 Year-End	2020 Average	2020 Year-End
United States Dollar	1.376	1.353	1.284	1.367
Canadian Dollar	1.724	1.711	1.720	1.742
Euro	1.163	1.189	1.125	1.119

6. Dividend

During the 2021 financial year the Company paid three dividends totaling £119m (2020: £98m) to its parent company, Legal & General Re Holdings. On 25 February 2021, the Board approved and declared a £65m interim dividend to its parent company; £35m was paid on 15 March 2021 and the remaining £30m was paid on 27 October 2021. A final dividend of £54m was declared by the Board on 4 November 2021 and it was paid on 1 December 2021. The total dividend per share was 30.65p (2020: 25.24p).

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7. Funds withheld

Total Funds withheld balance as of 31 December 2021 amounts to £20,723m (2020: £20,271m).

The Company's funds withheld includes the balance associated with its reinsurance of Legal & General Assurance Society Limited's ('LGAS's) non-participating insurance contracts and investment contracts.

As part of the reinsurance agreement, LGAS contractually withholds assets of at least 101% (2020: 101%) of their IFRS reserves and these assets are managed according to an agreed investment policy set by the Company. The Company reflects these assets as funds withheld on the Company's Statement of Financial Position. In the event that LGAS was to become insolvent, the Company would need to assert a claim on the assets supporting its reserve liabilities. The Company attempts to mitigate its risk of loss by offsetting amounts for claims or allowances that it owes LGAS with amounts that LGAS owes to the Company. The Company is subject to the investment performance of the withheld assets, although it does not directly own them. The Company sets and monitors compliance with the investment guidelines followed by LGAS. The Company's risk of loss could increase if the investment guidelines are inappropriate or LGAS does not adhere to such guidelines. This could have a material adverse impact on the Company's financial condition and operations result. To mitigate this risk, the Company helps set the investment guidelines followed by LGAS and monitors compliance thereto. The funds withheld balance with LGAS as of 31 December 2021 amounts to £20,723m (2020: £20,262m).

On 24 August 2021, the Company entered into a Business Transfer Agreement with Legal & General Reinsurance Company No.2 Limited ('L&G Re No.2'). The Company transferred its rights and obligations related to its Canadian PRT business, to L&G Re No.2. The agreement includes the transfer of the Canadian Funds Withheld ('CFWH') from the Company to L&G Re No.2. The funds withheld balance as of 31 December 2021 amounted to £Nil (2020: £9m).

Income accrued and return on the funds withheld assets, according to the terms defined in each of the reinsurance treaties, was a gain of 1.14% (2020: 8.53% gain) for the year ended 31 December 2021. The ratings of the assets underlying the funds withheld are shown in Note 20 Table 2.

Funds withheld are expected to be received in line with the expected settlement of the backed liabilities as per Note 12(iii).

8. Financial investments, including derivative assets

(i) Financial investments at fair value

	Notes	2021 £m	2020 £m
Financial investments at fair value designated as:			
Fair value through profit or loss		1,388	1,369
Held for trading		58	78
Total financial investments, including derivative assets	10	1,446	1,447
Expected to be received within 12 months		340	537
Expected to be received after 12 months		1,106	910

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8. Financial investments, including derivative assets (Continued)

The financial investments are comprised of Shareholder Fund and Euro Long-term Fund. The risks associated with financial investments are outlined in Note 20.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities.

Financial investments within the Euro Long-term Fund include £114m (2020: £133m) of debt securities pledged as collateral in the course of writing treaties with the Company's counterparties. The assets used as collateral are AAA, AA, A, BBB Corporate Bonds (2020: AAA, AA, A, BBB Corporate Bonds) having a residual maturity of up to 34 years (2020: 36 years). The Company is entitled to receive all of the cash flows from the assets during the period when they are pledged as collateral. The Company can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the Security Deed is met.

There are no financial investments in the Canadian Long-term Fund at year end due to the investments being transferred to L&G Re No. 2 (See Note 7 and 8). Financial investments within the Canadian Long-term Fund for 2020 include £137m of debt securities pledged as collateral in the course of writing treaties with the Company's counterparties. The assets used as collateral for 2020 is AA, A, BBB Corporate Bonds having a residual maturity of 42 years. The Company is entitled to receive all of the cash flows from the assets during the period when they are pledged as collateral and has the economic benefit on assets. The Company can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the Security Deed is met.

Private equity investments are included within equity securities and debt securities. A loss of £7m (2020: £14m loss) has been recognised in the Statement of Profit or Loss and Total Comprehensive Income in respect of the movement in fair value of these investments (Note 8(ii)).

(ii) Fair value hierarchy of financial investments, derivative assets and funds withheld

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement basis are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Company's assets by IFRS 13 hierarchy levels:

As at 31 December 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	801	747	-	54
Debt securities	583	146	134	303
Accrued interest	4	1	2	1
Derivative assets	58	4	54	-
Total financial investments, including derivative assets	1,446	898	190	358
Funds withheld	20,723	8,017	5,125	7,581
As at 31 December 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	621	574	-	47
Debt securities	743	191	235	317
Accrued interest	5	2	2	1
Derivative assets	78	1	77	-
Total financial investments, including derivative assets	1,447	768	314	365
Funds withheld	20,271	7,127	6,623	6,521

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8. Financial investments, including derivative assets (Continued)

The Company's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, the Company would consider these market prices to be observable and therefore classify them as Level 1. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2. Refer to Level 3 assets section for methodology.

(iii) Significant transfers between level 1 and level 2:

The Company's policy is to re-assess categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time. The following table presents the transfers that occurred in the Company during the year:

	2021 £m	2020 £m
Transfer into level 1 from level 2	12	-
Transfer into level 2 from level 1	42	-

(a) Level 3 assets at fair value

	Equity securities 2021 £m	Debt Securities ¹ 2021 £m	Funds withheld 2021 £m	Total 2021 £m	Equity securities 2020 £m	Debt securities ¹ 2020 £m	Funds withheld 2020 £m	Total 2020 £m
As at 1 January	47	318	6,521	6,886	48	303	5,705	6,056
Total gains or losses for the period:	-	(14)	171	157				
- realised and unrealised gains/(losses) in profit and loss	9	-	-	9	(1)	15	441	455
Purchases / additions	-	-	1,325	1,325	1	-	1,265	1,266
Sales / disposals	(2)	-	(411)	(413)	(1)	-	(870)	(871)
Transfers into Level 3	-	-	2	2	-	-	1	1
Transfers out of Level 3	-	-	(27)	(27)	-	-	(21)	(21)
As at 31 December	54	304	7,581	7,939	47	318	6,521	6,886

1. Debt securities includes accrued interest.

The Company holds regular discussion with pricing providers to determine whether transfers or classifications between levels of the fair value hierarchy have occurred.

Level 3 assets

Level 3 assets, where modelling techniques are used, comprise property, unquoted securities, untraded debt securities and securities where unquoted prices are provided by a single broker. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, and liquidity and risk margins on unobservable inputs.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

8. Financial investments, including derivative assets (Continued)

(a) Level 3 assets at fair value (continued)

The Company's assets are valued, where possible, using standard market pricing sources or appropriately qualified external valuers and are by nature reflective of current market sentiments around climate risk; as such no additional overlays have been applied.

Equity securities

Level 3 equity securities amount to £54m (2020: £47m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are also included that are valued by a number of third party specialists using a range of techniques which depend on the maturity of the underlying investment. Primarily discounted cash flow models are utilised but for some early stage investments, alternate valuation techniques are used such as earnings multiples and transaction values underpinned by analysis of milestone achievement and cash runway.

Other financial investments

Lifetime mortgage ('LTM') loans amount to £2,315m (2020: £1,717m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 300bps and ensures the value of loans at outset is consistent with the purchase price of the loan and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee ('NNEG') to borrowers. This ensures that if there is a shortfall between the sale proceeds of the house and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which the Company calculates using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 31 December 2021 reflects a long-term property growth rate assumption of RPI + 0.5%, after allowing for the effects of dilapidation. The values of the properties collateralising the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

Private credit loans (including commercial real estate loans) amount to £3,150m (2020: £2,378m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM ('Legal & General Investment Management Limited') approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provided independent monthly valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. LGIM approved comparable bonds are a set of public bonds which are selected by LGIM Private Credit and agreed by the external valuation provider to be used as the benchmark of a particular investment. The initial spread is the calculated premium required to discount cash flows to par value/purchase price.

The valuation of income strip assets is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. It is expected that the Company's property valuation as at 31 December 2021 would reflect similar equivalent yield ranges to Group between 1% and 9% and estimated rental values (ERV) between £10 and £338 per sq. ft.

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

Investment property

Level 3 investment property amounting to £1,009m (2020: £1,544m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by RICS and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, in practice the definition of market value, including the commentary, requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also includes an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. It is expected that the Company's property valuation as at 31 December 2021 would reflect similar equivalent yield ranges to Group between 1% and 13% and ERV between £1 and £338 per sq. ft.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The Company's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

(b) Effect of changes in significant unobservable inputs (Level 3) to reasonable possible alternative assumptions

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where material, the Company assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impacts of applying these sensitivities on the fair value of Level 3 assets as at 31 December 2021.

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8. Financial investments, including derivative assets (Continued)

(a) Level 3 assets at fair value (Continued)

	Fair value 2021 £m	Most significant unobservable input	Positive Impact £m	Negative Impact £m
Lifetime mortgages	2,315	Illiquidity premium	79	(123)
Private credit loans	3,150	Credit spreads	172	(172)
Investment property	1,009	Equivalent rental yields	80	(70)
Other investments ¹	1,465	Various	79	(80)
Total Level 3 investments	7,939		410	(445)

1. Other investments includes debt security issued by Legal & General Finance Plc (See note 18(x)). The valuation of the debt security is based on a discounted cashflow model with cashflows constructed according to the terms of the loan, i.e. coupon rate, coupon frequency and an assumption maturing at the first call date. The discount rate of the model is based on the comparable bond yield plus any adjustments on the differences between the comparable bond and the deal.

The sensitivities are not a function of sensitising a single variable relating to the valuation of the asset, but rather a function of flexing multiple factors often at individual asset level.

9. IFRS 9 'Financial Instruments' deferral

(i) Fair value of financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the 'SPPI' test):

	Financial assets passing the SPPI test ^{1,2} 2021 £m	All other financial assets ³ 2021 £m	Financial assets passing the SPPI test ^{1,2} 2020 £m	All other financial assets ³ 2020 £m
Equity securities	-	801	-	621
Debt securities	-	583	-	743
Accrued interest	-	4	-	5
Derivative assets	-	58	-	78
Funds withheld	-	20,723	-	20,271
Total financial investments at fair value	-	22,169	-	21,718
Other receivables	20	-	26	-
Total financial assets (excluding cash and cash equivalents)	20	22,169	26	21,718

1. Financial assets classified as FV or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'All other financial assets'.

2. For financial assets which pass the SPPI test held at 31 December 2021, there was a change in the fair value in the year of £Nil. (2020: £Nil).

3. For all other financial assets held at 31 December 2021, there was an increase of fair value movement in the year of £1,748m (2020: increase £1,745m).

Asset valuation approach at 31 December 2021

The Company's asset portfolio can be exposed to climate change through both:

- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Exposure to the physical risks of climate change are minimised in the direct investment portfolios ('Private Corporate Debt, Infra Debt, Real estate Debts, Other Asset Classes, Property and LTM's') through rigorous assessment of potential investments, particularly in ensuring there is low susceptibility to extreme weather events. The Group monitors the carbon intensity of the investments held at a portfolio level to help understand the environmental impact and reduce high carbon intensive investments in the future.

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9. IFRS 9 'Financial Instruments' deferral (Continued)

(ii) Credit risk information of financial assets passing the SPPI test

	AAA	AA	A	BBB	BB or below	Other ¹	Total
	2021	2021	2021	2021	2021	2021	2021
	£m	£m	£m	£m	£m	£m	£m
Other receivables	-	-	7	-	-	13	20
Total financial assets (excluding cash and cash equivalents)	-	-	7	-	-	13	20

1. Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. All receivables within this category are deemed to have low credit risk.

	AAA	AA	A	BBB	BB or below	Other ¹	Total
	2020	2020	2020	2020	2020	2020	2020
	£m	£m	£m	£m	£m	£m	£m
Other receivables	-	-	7	-	-	19	26
Total financial assets (excluding cash and cash equivalents)	-	-	7	-	-	19	26

1. Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. All receivables within this category are deemed to have low credit risk.

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10. Derivative assets and liabilities

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile:

As at 31 December 2021	Fair values £m	Maturity profile of undiscounted cash flows					Total £m
		Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	
Cash inflows							
Derivative assets	58	181	26	54	24	10	295
Derivative liabilities	(54)	96	73	87	48	12	317
Total	4	277	99	141	72	22	612
Cash outflows							
Derivative assets	58	(78)	(13)	(34)	(15)	(4)	(143)
Derivative liabilities	(54)	(124)	(87)	(107)	(57)	(15)	(390)
Total	4	(202)	(100)	(141)	(72)	(19)	(533)
Net derivative cash flows		75	(1)	-	-	3	79

As at 31 December 2020	Fair values £m	Maturity profile of undiscounted cash flows					Total £m
		Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	
Cash inflows							
Derivative assets	78	136	51	117	75	36	415
Derivative liabilities	(68)	10	74	33	17	1	135
Total	10	146	125	150	92	37	550
Cash outflows							
Derivative assets	78	(121)	(35)	(94)	(63)	(24)	(337)
Derivative liabilities	(68)	(18)	(95)	(55)	(28)	(6)	(202)
Total	10	(139)	(130)	(149)	(91)	(30)	(539)
Net derivatives cash flows		7	(5)	1	1	7	11

The Company uses derivatives to reduce market risk. The most widely used derivatives are over the counter and exchange-traded swaps. The Company may use futures to facilitate efficient asset allocation. In addition, derivatives are used to improve asset-liability matching and to manage interest rate, inflation rate and foreign exchange risk. It is the Company's policy that all derivative transactions are on a covered basis against underlying holdings of assets. Derivative counterparty risk is managed by the posting of collateral on a daily basis.

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11. Share capital

	2021 Number of shares	2021 £	2020 Number of shares	2020 £
Authorised share capital:				
Ordinary shares of US\$1 each	500,000,000	386,953,870	500,000,000	386,953,870
Issued share capital:				
Fully paid ordinary shares of US\$1 each	388,295,388	300,495,192	388,295,388	300,495,192

In 2014, 250,000 authorised and issued ordinary shares of US\$1.00 were subscribed to by Legal & General Re Holdings Limited. In October 2019, the Company increased its authorised shares to 500,000,000, of which a further 388,045,388 were subscribed to by the same company at US\$1.00 each. There is one class of ordinary shares. All shares issued carry equal voting rights.

The holder of the Company's ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at shareholder meetings of the Company.

12. Non-participating insurance contract liabilities

(i) Analysis of non-participating insurance contract liabilities

	Note	Gross 2021 £m	Reinsurance 2021 £m	Gross 2020 £m	Reinsurance 2020 £m
Non-participating insurance contracts liabilities	12(iii)	19,514		19,689	-
Total non-participating insurance contract liabilities		19,514		19,689	-

(ii) Expected non-participating insurance contract liability cash flows

As at 31 December 2021	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
Non-participating insurance contracts liabilities	5,198	9,395	6,468	4,650	25,711	19,514
Non-participating insurance contract liabilities	5,198	9,395	6,468	4,650	25,711	19,514

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.87%.

As at 31 December 2020	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Non-participating insurance contracts liabilities	4,852	8,739	6,053	4,325	23,969	19,689
Non-participating insurance contract liabilities	4,852	8,739	6,053	4,325	23,969	19,689

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.36%.

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12. Non-participating insurance contract liabilities (Continued)

(iii) Movement in non-participating insurance contract liabilities

	Note	Gross 2021 £m	Gross 2020 £m
As at 1 January		19,689	17,538
New liabilities in the period		1,359	1,730
Liabilities discharged in the year		(1,103)	(838)
Unwinding of discount rates		270	230
Effect of change in non-economic assumptions	14	(121)	(106)
Effect of change in economic assumptions	14	(370)	1,070
Other		(210)	65
As at 31 December		19,514	19,689
Expected to be settled within 12 months		1,052	991
Expected to be settled after 12 months		18,462	18,698

13. Non-participating investment contract liabilities

(i) Analysis of non-participating investment contract liabilities

	Notes	Gross 2021 £m	Reinsurance 2021 £m	Gross 2020 £m	Reinsurance 2020 £m
Non-participating investment contracts liabilities	13 (iii)	353		155	-
Total non-participating investment contract liabilities		353		155	-

(ii) Expected non-participating investment contract liability cash flows

As at 31 December 2021	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
Non-participating investment contracts liabilities	32	115	134	193	474	353
Non-participating investment contract liabilities	32	115	134	193	474	353

Investment contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.69%.

As at 31 December 2020	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
Non-participating investment contracts liabilities	10	41	51	90	192	155
Non-participating investment contract liabilities	10	41	51	90	192	155

Investment contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.36%.

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13. Non-participating investment contract liabilities (Continued)

(iii) Movement in non-participating investment contract liabilities

	Note	Gross 2021 £m	Gross 2020 £m
As at 1 January		155	52
New liabilities in the period		196	99
Effect of change in economic assumptions	14	4	4
Other		(2)	-
As at 31 December		353	155
Expected to be settled within 12 months		5	1
Expected to be settled after 12 months		348	154

14. Long term insurance valuation assumptions

Non-participating business

The Company writes only non-participating business and it seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for UK based Solvency I. The assumptions incorporate prudent margins in excess of our best estimate assumptions to minimise the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates

The valuation interest rate for the underlying annuity business is based on the internal rate of return on the portfolio of assets backing the liabilities. The current dividend yield is used for equity investments and the rental income yield is used for property holdings.

For the valuation interest rate assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company applies a prudent c33bps per annum reduction to asset yield to allow for the risk of default for all business, overall this leads to a total default provision (including 'additional default provision') of c£856m.

The Company believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

Annuitant Mortality

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation ('CMI') of the Institute and Faculty of Actuaries. These tables are based on industry wide mortality experience for insured lives. Mortality improvement rates are based on the CMI's mortality projections model and reflect expected improvements in longevity in the future.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the Company's experience differs from that of the industry and suggest appropriate adjustments which need to be made to derive the valuation assumptions. Prudent margins of between 6% and 10% are applied to the base mortality assumption for valuation purposes.

Persistency

The Company monitors its persistency experience and carries out detailed investigations annually. Persistency experience can be volatile and past experience may not be an appropriate future indicator.

The Company tries to balance past experience and potential future conditions by making prudent assumptions about expected long term average persistency levels.

Where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

For US term assurance, a single margin is used across guaranteed period durations for a given policy. All US term assurance contracts are assumed to lapse at the end of the guaranteed period. Policies past the guaranteed period as of the valuation date are assumed to lapse on the next premium due date.

Expenses

The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

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14. Long term insurance valuation assumptions (Continued)

The principal assumptions are:

2021	UK	Netherlands	Ireland	US
(i) Rate of interest / discount rate				
Annuities in deferment	1.88% pa	1.33% pa	1.33% pa	Not applicable
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-1.42% pa	Not applicable	Not applicable	Not applicable
Vested annuities	1.88% pa	1.33% pa	1.33% pa	Not applicable
Vested annuities (RPI linked; net rate after allowance for inflation)	-1.42% pa	Not applicable	Not applicable	Not applicable
Term assurance	Not applicable	Not applicable	Not applicable	Yield curve on USD Treasury bonds plus 1%
(ii) Mortality tables				
Annuities in deferment ¹	76.2% - 86.3% PCXA00/PNXA00	30.4% - 81.0% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
Vested annuities ¹				
- Bulk purchase annuities	76.2% - 86.3% PCMA00/PCFA00	58.1% - 100.5% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
- Other annuities ²	66.0% - 109.3% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable
LGA reinsured business ³	Not applicable	Not applicable	Not applicable	96.4% - 150.0% of VBT2014 Table

1. For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long Term Rate has been determined using a combination of L&Gs internal Cause of Death model and expert judgment. With the following parameters:

- Males (UK): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (UK): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Dutch): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (Dutch): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Irish): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Females (Irish): Long Term Rate of 1.25% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Males future mortality improvement term assurance factors of 1.0% p.a. with a constant deduction of 0.3%.
- Females future mortality improvement term assurance factors of 1.0% p.a. with a constant deduction of 0.3%.

2. For certain annuities, a further allowance is made for the effect of initial selection.

3. Additional adjustments are applied by policy term, issue age, face amount and duration in-force.

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14. Long term insurance valuation assumptions (Continued)

2020	UK	Netherlands	Ireland	US	Canada
(i) Rate of interest / discount rate					
Annuities in deferment	1.37% pa	0.73% pa	0.73% pa	Not applicable	1.97% pa
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-1.90% pa	Not applicable	Not applicable	Not applicable	Not applicable
Vested annuities	1.37% pa	0.73% pa	0.73% pa	Not applicable	1.97% pa
Vested annuities (RPI linked; net rate after allowance for inflation)	-1.90% pa	Not applicable	Not applicable	Not applicable	Not applicable
Term assurance	Not applicable	Not applicable	Not applicable	Yield curve on USD Treasury bonds plus 1%	Not applicable
(ii) Mortality tables					
Annuities in deferment ¹	71.9% - 81.9% PCXA00/PNXA00	30.4% - 81.0% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable	Not applicable
Vested annuities ¹					
- Bulk purchase annuities	72.7% - 81.9% PCMA00/PCFA00	58.1% - 100.5% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable	Vita Curves Mortality model
- Other annuities ²	57.6% - 105.1% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable	Not applicable
LGA reinsured business ³	Not applicable	Not applicable	Not applicable	96.4% - 150.0% of VBT2014 Table	Not applicable

1. For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The Company used CMI 2018 for the UK business which is the most material line. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long Term Rate has been determined using a combination of the Company's internal Cause of Death model and expert judgment. With the following parameters:

- Males (UK): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110.
 - Females (UK): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.
 - Males (Dutch): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110.
 - Females (Dutch): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.
 - Males (Irish): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110.
 - Females (Irish): Long Term Rate of 1.25% p.a. up to age 85 tapering to 0% at 110.
 - Males (Canadian): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110.
 - Females (Canadian): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110.
 - Males future mortality improvement term assurance factors based on attained age ranging from 0.67%-1.5% p.a. with a constant addition of 0.3%
 - Females future mortality improvement term assurance factors based on attained age ranging from 0.5%-1.0% p.a. a constant addition of 0.3%
- Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2018. The resulting initial rates are then adjusted to reflect socio economic class. (2019: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2017).

2. For certain annuities, a further allowance is made for the effect of initial selection.
3. Additional adjustments are applied by policy term, issue age, face amount and duration in-force.

Persistency assumptions

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate.

A summary of the lapse basis for major classes of non-profit business is shown below.

Term	Lapse rates assumed by term	
	2021 %	2020 %
10	5.42%	5.45%
15	3.04%	3.08%
20	2.26%	2.28%
25	2.43%	2.47%
30	2.05%	2.10%
35	2.65%	2.56%
40	2.58%	2.47%

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15. Payables and other financial liabilities, including derivative liabilities

	Notes	2021 £m	2020 £m
Derivative liabilities	10	54	68
Other financial liabilities		8	13
Collateral received from banks		6	18
Other balances due	18	17	16
Payables and other financial liabilities, including derivative liabilities		85	115
Settled within 12 months		58	107
Settled after 12 months		27	8

Payables and other financial liabilities settled after 12 months are expected to be settled within five years, with the exception of derivative liabilities, as disclosed in Note 10.

Fair value hierarchy

As at 31 December 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	54	1	53	-	-
Other financial liabilities	8	-	-	-	8
Collateral received from banks	6	6	-	-	-
Other balances due ¹	17	-	-	-	17
Payables and other financial liabilities, including derivative liabilities	85	7	53	-	25

1. See Note 18(vi) Related party transactions.

As at 31 December 2020	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	68	1	67	-	-
Other liabilities	13	-	-	-	13
Collateral received from banks	18	18	-	-	-
Intercompany balances due ¹	16	-	-	-	16
Payables and other financial liabilities, including derivative liabilities	115	19	67	-	29

1. See Note 18(vi) Related party transactions.

There have been no significant transfers between levels (2020: No significant transfers).

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16. Contingent liabilities, guarantees and indemnities

Provisions for the liabilities arising under contracts with policyholders are based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the regulators.

The Company has access to a rolling credit facility ('RCF') from Legal & General Group Plc. In the event of a liquidity need, most likely due to a pandemic, the Company can call upon this facility to meet its obligations (See Note 18 (ix)).

The Company has entered into various Letters of Credit Contracts ('LOC').

As at 31 December 2021				
Issuer bank	Currency	Facility type	Facility term	Facility amount in millions
Citibank Europe PIC, Ireland	USD	Un-Committed	n/a	0.15
ING Bank N.V., Netherlands	EUR	Committed	3 yrs. Dec 2022	35.50

As at 31 December 2020				
Issuer bank	Currency	Facility type	Facility term	Facility amount in millions
Citibank Europe Plc, Ireland	USD	Un-committed	n/a	0.15
Citibank Europe Plc, Ireland	CAD	Committed	5 yrs. Apr 2024	25.00
HSBC Bank Canada	CAD	Committed	5 yrs. Oct 2025	100.00
ING Bank N.V., Netherlands	EUR	Committed	3 yrs. Dec 2022	40.00

The Company does not have any other contingent liabilities, guarantees or indemnities (2020: £Nil) arising as part of its normal course of business.

17. Parent companies and subsidiary undertaking

The immediate parent company of Legal & General Reinsurance Company Limited is Legal & General Re Holdings Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. These accounts provide information about Legal & General Reinsurance Company Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available, at the Registered Office, One Coleman Street, London, EC2R 5AA, on Legal & General Group Plc website at www.legalandgeneral.com, or from the Company Secretary.

On 15 January 2015, Legal & General SAC Limited ('L&G SAC') (License No. 49929) was incorporated as a Bermuda exempted company limited by shares, was subsequently licensed on 12 October 2015 as a Class C Insurer under the Insurance Act 1978 and as a Segregated Accounts Company under the Segregated Accounts Companies Act 2000. In February 2015, the Company subscribed to L&G SAC's 250,000 authorised and issued ordinary shares of US\$1.00. There is one class of ordinary shares and all shares issued carry equal voting rights. In October 2015, the Company completed a US\$0.65m (£0.43m) capital injection into L&G SAC as required by local Bermuda requirements. Furthermore, in November 2016, the Company completed a US\$0.12m (£0.10m) capital injection into L&G SAC. L&G SAC has not written any business since inception.

In November 2021, L&G SAC's Class C Insurer Registration was cancelled by the BMA and L&G SAC was deregistered as a Segregated Accounts Company by the Bermuda Registrar of Companies. In January 2022, the Company, as sole shareholder of L&G SAC, approved the voluntary liquidation of L&G SAC as it has remained dormant since its incorporation. A final dividend was paid by L&G SAC to the Company in January 2022 and L&G SAC was dissolved with effect from 2 March 2022.

18. Related party transactions

(i) Reinsurance

The Company is acting as reinsurer to a related party, LGAS. The Company accepted £1,020m (2020: £1,568m) of reinsurance premium for reinsuring non-participating insurance contract business, paid £5m (2020: £7m) in commission and paid £641m (2020: £618m) in claims during the year. In total, since inception, a non-participating insurance liability of £19,293m (2020: £19,231m) is held to cover this business. Under the same contract, the Company accepted £219m (2020: £96m) of reinsurance premium for reinsuring non-participating investment contract business, paid £1m (2020: £Nil) in commission and paid £24m (2020: £Nil) in claims during the year. In total, since inception, a non-participating investment liability of £198m (2020: £103m) is held to cover this business. The premiums, claims and changes in reserves for the non participating investment contracts are shown net of premiums, claims and changes in reserve in the Statement of Profit or Loss and Total Comprehensive Income.

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18. Related party transactions (Continued)

(i) Reinsurance (Continued)

In 2021, the Company entered into Excess of Loss reinsurance agreements with Banner Life Insurance Company ('Banner') and FBBRC III, both related parties, to cover additional mortality business.

Regarding FBBRC III, the Company accepted £23m (2020: £20m) of reinsurance premium for reinsuring non-participating insurance contract business and paid £57m (2020: £10m) in claims during the year. A non-participating insurance negative liability of £58m (2020: £20m) is held to cover this business, excluding the In Course Of Settlement ('ICOS') claims of £18m (2020: £28m) and Incurred but not reported ('IBNR') claims of £6m (2020: £8m), which results in a net liability in respect of FBBRC III of £34m (2020: £16m). The net liability of £34m (2020: £16m) is included within non-participating insurance contract liabilities on the Statement of Financial Position. ICOS represents liabilities for claims reported and received but not yet settled and paid as of the valuation date. IBNR are liabilities for claims that are anticipated but have not been reported as of the valuation date. Under the contracts with FBBRC III the Company has recognised an experience refund in other income of £9m (2020: £16m).

Regarding Banner, the Company accepted £3m (2020: £Nil) of reinsurance premium for reinsuring non-participating insurance contract business and paid £Nil (2020: £Nil) in claims during the year. A non-participating negative insurance liability of £33m (2020: £Nil) is held to cover this business, excluding the ICOS claims of £40m (2020: £Nil) and IBNR claims of £9m (2020: £Nil), which results in a net liability for Banner of £16m (2020: £Nil). The net liability of £16m (2020: £Nil) is included within non-participating insurance contract liabilities on the Statement of Financial Position. Under the contracts with Banner the Company has recognised an experience refund in other income of £9m (2020: £Nil).

(ii) Investments in Group unit trusts and the Group liquidity funds

The Company held £602m (2020: £429m) of investments in unit trusts, controlled and managed by Legal & General Group Plc companies that are classified as other related parties. The Company made a gain of £5m (2020: £1m loss) from those trusts.

(iii) Investments in funds withheld

The Company held £20,723m (2020: £20,262m) in funds withheld by a related party, LGAS. Net gain of £195m (2020: £1,693m gain) arose in the year on the funds withheld (See Note 3 and 7).

(iv) Investment in subsidiary

The Company held a £528k (2020: £528k) investment in its subsidiary L&G SAC (See Note 17).

(v) Other assets

As at 31 December	2021 £m	2020 £m
Due from other related party:		
- Premium receivable FBBRC III	-	1
- COVID claim refund	6	-
- Premium payable FBBRC III	(28)	-
- Premium receivable Banner	11	-
Total	(11)	1

(vi) Payables and other financial liabilities

As at 31 December	2021 £m	2020 £m
Due to other related party:		
- Resources management charges due ¹	2	4
- Investment management charges due	15	12
Total	17	16

1. The management charges due relate to expenses owed by the Company to affiliates within the Group, namely LGRB and Legal & General Resources Limited. These charges have accrued over the year and relate to the operation costs including employee benefits. Legal & General Resources Limited which employs all UK staff, charges all of its costs pertaining to secondees to LGRB from the UK offices. LGRB employs Bermuda based staff and incurs all costs of operation.

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18. Related party transactions (Continued)

(vii) Other charges

For the year ended 31 December	2021 £m	2020 £m
Management charges ¹	12	14
Total charges	12	14

1. See note under table 18(vi) £8m (2020: £9m) of management charges are staff related costs.

(viii) Dividends

During the 2021 financial year, the Company paid a dividend of £119m (2020: £98m) to its parent company Legal & General Re Holdings Limited.

(ix) Other loans

On 20 December 2018, the Company received a rolling credit facility from its ultimate parent company, Legal & General Group Plc. The facility is available for use to remedy a liquidity deficit, most likely to arise in the event of a US pandemic (for example, following severe adverse development of COVID-19) in respect of the non-participating business entered into with related parties, FBBRC III and Banner. The facility available is \$130m (2020: \$130m) and a commitment fee of 0.45% (2020: 0.45%) is payable on the undrawn portion of the facility quarterly. The loan balance at the end of the year was £Nil (2020: £Nil). Interest expense from the facility for the year was £425k (2020: £459k) (See Note 18(vii)).

The Company did not enter into loan agreements with the related party Legal & General Finance Plc.

(x) Financial assets - debt security

In 2019, the Company invested in debt issued by Legal & General Finance Plc, an affiliate company. The fair value of the debt security was £303m (2020: £317m).

(xi) Novation agreement

On 24 August 2021, the Company entered into a Business Transfer Agreement with L&G Re No.2, a related party. The Company transferred to L&G Re No.2 its rights and obligations related to its Canadian PRT business. At the inception of the agreement, the Company recorded a novation loss of £128m and disposed of £12m of claims paid offset by a £141m release of non-participating insurance liability.

19. Management of capital resources

Capital management policies and objectives

The Company aims to manage its capital resources to maintain financial strength, ensure policyholder security, meet local capital requirements and maintain the Company's strong financial strength rating which provides a competitive advantage.

Capital measures

The Company measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Company operates, and those which the Directors consider most appropriate for managing the business. The measures used by the Company include Bermuda Economic Balance Sheet ('EBS') regulatory capital and economic capital as measured by the Group Internal Model.

Accounting bases

Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity.

Bermuda statutory requirements

The Company is licensed as a long-term Class E reinsurer under the Bermuda's Insurance Act 1978. Under the Act, the Company is required to maintain a minimum capital and surplus. There are no statutory restrictions on the payment of dividends from retained earnings of the Company as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid in capital. However, approval from the Bermuda Monetary Authority must be obtained before the statutory capital is reduced in excess of 15% of the previous year's statutory filing. In all cases, the Approved Actuary needs to provide support for any proposed dividends.

Capital resources

The financial strength of the Company is measured by reference to its Bermudian statutory accounts which are a requirement of all Class E reinsurers. The Company's total capital resources of £2,255m (2020: £1,823m) comprise an initial capital contribution received in 2014 from the ultimate parent of £220m, a further £300m of issued share capital to the ultimate parent in 2019 and £1,734m (2020: £1,303m) in respect of retained earnings after payment of a £119m dividend in 2021 (2020: £98m).

These resources are in excess of the required minimum capital and solvency requirements.

Available regulatory capital resource risks

The Company's capital resources are sensitive to changes in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality, longevity and to a lesser extent expenses.

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Report and Accounts 2021**19. Management of capital resources (Continued)**

The most significant risks arise from:

- Credit risk: this materialises if the default and downgrade experience of the assets backing the liabilities exceed the reserving assumptions,
- Longevity risk: losses occur if the mortality of annuitants was lower than the assumptions used for reserving, and
- Mortality risk: losses occur if the mortality of reinsured policyholders is higher than the assumptions used for reserving.

20. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach that applies to all risks and includes a detailed review of risks within the Company's business.

Insurance risk

Exposure to loss arising from claims experience being different to that anticipated.

Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk is managed with policies for underwriting, pricing and reinsurance. The Company's insurance risk policy sets out the overall framework for the management of insurance risk. Areas where the Company is primarily exposed to insurance risk are longevity, rates of longevity improvement and mortality. Insurance risk also arises from incomplete scheme demographic data, specifically where information concerning spouses is unavailable (spouse risk).

Pricing is based on a fixed set of assumptions, such as mortality, which consider past experience, recent trends, and expert opinion. Actual experience may vary from the pricing assumptions, leading to profits or losses. Insurance exposures are limited through reinsurance for specific cohorts of business. Overall, the Company seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits.

Operational risk

Exposure to loss arising from inadequate or failed internal processes, people, systems or external events.

Potential for exposure to operational risk extends to all aspects of the business. The Company has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action or reputational damage.

Concentration risk

Exposure to loss arising from a specific geographic location or type of loss event.

As part of the ongoing risk assessment processes the Company considers the concentration of risk. The Company seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limits set include maximum exposures to single lives, financial instruments and reinsurance balances. Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company. The most significant exposure of this type arises for the Group protection business, where a single event could result in a large number of related claims.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

The Company's exposure to market risk is influenced by one or more external factors, including changes to interest rates, inflation, financial instrument prices, foreign exchange rates and indices of prices or rates.

Significant areas where the Company is exposed to these risks are:

- assets backing insurance contracts;
- assets and liabilities denominated in foreign currencies; and
- other financial assets and liabilities.

The Company's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

The Company is ultimately responsible for the management of market risk. The Company has chosen to outsource the execution of the funds withheld investment risk policy, as noted below, to LGAS. The Company manages market risk using the following methods:

Asset liability matching

The Company manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has on the Company's Statement of Financial Position.

For business such as immediate annuities, which is sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and early redemption options contained in the assets.

20. Risk management and control (Continued)

The Company holds a range of asset types to meet liabilities and stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities. This allows the Company to devise an investment strategy which maximises risk-adjusted returns to its shareholder.

Derivatives

The Company uses derivatives to reduce the market risk arising in the funds. The most widely used derivatives are exchange-traded swaps. The Company may use futures to facilitate efficient asset allocation within the long term funds. In addition, derivatives within the long term fund are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is the Company's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised as appropriate to reduce counterparty risk.

The most significant risks arise from:

Interest rate risk

Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, the Company purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance liabilities, the expected risk-adjusted rate of return and the expected impact on the capital requirement.

Asset liability matching significantly reduces the Company's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 3 of Note 20.

Currency risk

The Company operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The Company has exposure to currency risk from financial instruments held in currencies other than their functional currencies. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts, cross currency basis swaps and futures. The Company does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Company's business and meet local regulatory and market requirements.

The Company aims to maintain sufficient assets in local currency to meet local currency liabilities however movements may impact the value of the Company's shareholder's equity which is expressed in GBP Sterling. This aspect of foreign exchange risk is monitored and managed, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Company's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

As at 31 December 2021, the Company held net assets of £5,056m in US dollar (2020: £5,053m), £Nil in Canadian dollar (2020: net liability £5m) and net assets of £382m in Euro (2020: £387m). The Company mitigates exchange rate risk through the use of derivatives, mainly forward currency contracts.

The Company's management of currency risk reduces the shareholder's exposure to exchange rate fluctuations. The Company's exposure to a 10% exchange movement in the US dollar, Canadian dollar and Euro on an IFRS basis, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts, are: A 10% appreciation in the US dollar to Sterling period-end foreign exchange rate would have a £19.6m (2020: £14.8m) impact on shareholder equity, a 10% depreciation in the Canadian dollar to Sterling period-end foreign exchange rate would have a £Nil (2020: £1.4m) impact on shareholder equity and a 10% appreciation in the Euro to Sterling period-end foreign exchange rate would have a £3.4m (2020: £1.0m) impact on shareholder equity.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

The Company controls its exposure to geographical price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments.

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20. Risk management and control (Continued)

Table 1 indicates the Company's exposure to different equity markets around the world.

	Total 2021 £m	Total 2020 £m
UK	2	1
North America	6	5
Europe	2	15
Asia Pacific	2	1
Multiple jurisdictions	7	6
Listed equities	19	28
Holdings in unit trusts	2,038	1,898
Total equities	2,057	1,926

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the Company.

The Company's credit risk policy defines the overall framework for the management of credit risk. Credit risk exposures primarily arise in relation to corporate bonds held by the Company and those held by LGAS in relation to the Funds Withheld.

The Company holds fixed and variable rate securities within the financial investments and funds withheld to back part of its non-participating insurance liabilities. Significant exposures are managed by the application and regular review of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults.

The funds withheld includes LTMs, property lending and sale and leaseback investments. The Company is inherently exposed to the risk of default by a borrower or tenant. Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that the risk of default has been appropriately mitigated. The Company protects its interests through taking security over the underlying property associated with the investment transaction.

The Company limits its exposure to insurance risk by ceding part of the risks it assumes to the reinsurance market. To limit the risk of reinsurer default, the Company operates a credit rating policy when arranging cover. When selecting new reinsurance partners, the Company considers only companies which have a minimum credit rating equivalent to A-. Exposure limits for new and existing reinsurers are determined based on credit ratings and projected exposure.

The credit profile of the Company's financial investments and funds withheld exposed to credit risk is shown in Table 2. The credit rating bands are provided by independent rating agencies. Credit risk bands are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies Standard & Poor's, Moody's, and Fitch. For unrated assets, such as cash and derivatives, not exposed to credit risk, the Company maintains internal ratings which are used to manage exposure to these counterparties.

The carrying amount of assets included in the Statement of Financial Position represents the maximum credit exposure. No impairment provisions have been made.

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20. Risk management and control (Continued)

Table 2 – Exposure to credit risk including funds withheld

As at 31 December 2021	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other ¹ £m	Total £m
Government securities	169	1,083	12	90	-	45	1,399
Other fixed rate securities	276	1,063	3,842	4,279	188	3,006	12,654
Variable rate securities	1	353	666	541	10	744	2,315
Lifetime mortgages	-	-	-	-	-	1,901	1,901
Total debt securities	446	2,499	4,520	4,910	198	5,696	18,269
Accrued interest	4	10	35	67	9	1	126
Derivatives	-	-	58	-	-	(162)	(104)
Cash and cash equivalents	-	-	28	-	-	-	28
Financial assets	450	2,509	4,641	4,977	207	5,535	18,319
Investment in subsidiary	-	-	-	-	-	-	-
Other assets	-	-	6	-	-	1,825	1,831
Total²	450	2,509	4,647	4,977	207	7,360	20,150

1. Of the total debt securities and accrued interest that have been internally rated and unrated £1,277m is rated AAA, £795m AA, £1,777m A, £1,461m BBB, £73m BB and below.
2. Excluding equity securities (listed equity and holdings in unit trusts) which are included in Note 20 Table 1.

There are no impaired or past due financial assets within the portfolios in 2021.

As at 31 December 2020	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other ¹ £m	Total £m
Government securities	291	1,343	51	100	-	99	1,884
Other fixed rate securities	288	1,012	3,908	4,473	218	2,752	12,651
Variable rate securities	2	314	675	408	13	541	1,953
Lifetime mortgages	-	-	-	-	-	1,682	1,682
Total debt securities	581	2,669	4,634	4,981	231	5,074	18,170
Accrued interest	4	11	41	54	3	12	125
Derivatives	-	-	78	-	-	(95)	(17)
Cash and cash equivalents	-	-	37	-	-	-	37
Financial assets	585	2,680	4,790	5,035	234	4,991	18,315
Investment in subsidiary	-	-	-	-	-	1	1
Other assets	1	-	7	-	-	1,532	1,540
Total²	586	2,680	4,797	5,035	234	6,524	19,856

1. Of the total debt securities and accrued interest that have been internally rated and unrated £902m is rated AAA, £604m AA, £1,461m A, £1,196m BBB, £42m BB and below.
2. Excluding equity securities (listed equity and holdings in unit trusts) which are included in Note 20 Table 1.

There are no impaired or past due financial assets within the portfolios in 2020.

20. Risk management and control (Continued)

Liquidity risk

The risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company's liquidity risk policy defines the overall framework for the management of liquidity risk. The Company does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The liquidity risks to which the Company's business may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Company's insurance business seeks to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets are maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets. The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmark.

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques are as follows:

Annuities: Potential for liquidity risk arises within two specific aspects of the Company's annuity business (i) changes in future pension commitments and (ii) collateral requirements risk hedging strategies.

(i) Changes in future pension commitments - once business has been written, cash outflows for pensions in payment are generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

(ii) Collateral requirements for risk hedging strategies - as part of the investment asset management strategy for the Company's annuity business, financial instruments are utilised to manage exposure to fluctuations in interest rates, inflation and foreign currency, which may otherwise result in long term liabilities being unmatched. The use of such financial instruments can require the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.

The Company manages its banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends, with support from its ultimate holding company, Legal & General Group Plc's treasury function. The Company seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Company maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

Protection: Potential for liquidity risk within the Company's protection businesses may arise should the rate of claims diverge significantly from that anticipated, typically as a consequence of an extreme event.

The risk of being unable to settle claims as they fall due is actively managed with provision being made and cash pools maintained within investment portfolios for a prudent estimate of the potential claims that may arise from in-force business, taking account of extreme events. Such provisions are validated using stress tests. An RCF is provided by Legal & General Finance Plc, should the Company require additional cash to meet claims obligations (See Note 18 (ix)). The exposure to pandemic risk has been partially mitigated through a pandemic stop-loss reinsurance treaty with third parties.

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20. Risk management and control (Continued)

Sensitivity analysis

Table 3 shows the impact on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business.

	Impact on pre-tax profit net of reinsurance 2021 £m	Impact on equity net of reinsurance 2021 £m	Impact on pre-tax profit net of reinsurance 2020 £m	Impact on equity net of reinsurance 2020 £m
Sensitivity test				
1% increase in interest rates	(53)	(53)	(15)	(15)
0.5% decrease in interest rates	24	24	2	2
Credit spread widens by 100 bps with no change in expected defaults	(151)	(151)	(133)	(133)
0.5% increase in inflation	17	17	(18)	(18)
15% Rise in property ¹	168	168	78	78
15% Fall in property ¹	(186)	(186)	(78)	(78)
25% Rise in Equity Value	40	40	23	23
25% Fall in Equity Value	(40)	(40)	(23)	(23)
Annuity: +10bps in credit default assumption	(170)	(170)	(189)	(189)
Annuity: -10bps in credit default assumption	169	169	187	187
1% decrease in annuitant mortality	(38)	(38)	(50)	(50)
1% Increase in Annuitant Mortality	37	37	48	48
5% increase in assurance mortality	(227)	(227)	(168)	(168)

1. The prior year property stress only included Commercial property stress. In the current year the impact from Residential and Commercial properties have been included.

- In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Company's experience may be correlated.
- The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position.
- These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.
- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100/50 basis point change in the gross redemption yield on fixed interest securities together with a 100/50 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations.
- In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 0.5% pa increase in inflation resulting in a 0.5% pa reduction in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased by 0.5% pa.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates (so for example a rate that was 80% of a standard table would become 79% of that standard table).

The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts. The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

Climate Change

The Company is exposed to climate change through two broad categories:

- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Climate change impacts will emerge through risks that we are already exposed to, with the key existing risk exposures covered by the economic and non-economic sensitivities shown in this section. In addition, given the uncertain nature of the risks from climate change, and the lack of historical data to support decision making, a specific scenario testing approach over a longer term time horizon has been developed by the Group to manage the risks from climate change.

21. Subsequent events

On 28 April 2022, the Company declared an interim dividend of £65m to its parent company. The dividend per share was 16.74p.